E-commerce in Latin America: Local payments for a global community

Understanding local consumers, payments and e-commerce preferences

June 2017
Frecuencia Latinoamérica is Latam’s most established and respected source of market intelligence in the Region’s mobile industry. Over the past 16 years, our editorial products, information and intelligence have been the most authoritative, widely circulated and observed resource by those looking to gain insight into the increasingly complex relationships between the Region’s mobile ecosystems.

Our events provide in-depth coverage on a wide variety of niche markets within the mobile industry. In our eight year, Frecuencia Events continues to gather the most important, progressive C level decision makers and the most powerful institutions at our industry and regional specific events.

FRECENCIA LATINOAMÉRICA IN NUMBERS

- 20 years offering the most effective information source for mobile industry
- 8 years organizing the most relevant events and conferences for Latin American mobile industry
- Reaching more than 15,000 executives decision makers
- More than 17,000 registered users

(M2CLN) is the Region’s leading news service cover the convergence of the financial and the mobile provision service sectors in Latin America. It covers, from a business perspective, the particularities and dynamics of this emerging industry.

Since its debut in 2012, M2Commerce LATAM News weekly regional newsletter is reaching more than 7600 high level executives and decision makers.

The newsletter originates its information and intelligence from our network of journalists, analysts and bloggers throughout the Americas.

M2Banking & Fintech LATAM 2017
July 18 - 20
San Francisco, CA

M2Payment & Fintech Awards
AMI is the leading independent market intelligence provider in Latin America

- AMI is Latin America's leading Market Intelligence and Advisory group.
- AMI’s founding partners are pioneers in the field of Market Intelligence in Latin America, with over 20 years experience in the region.
- AMI has experience in every market in Latin America and the Caribbean.
- AMI is a member of SCIP – Strategic and Competitive Intelligence Professionals.
Our panelists and today’s agenda

Today’s speakers

Lindsay Lehr, Senior Director, Payments Practice Leader, Americas Market Intelligence

Gustavo Sambucetti, President, Argentine Chamber of Commerce, Sub Director of e-commerce Walmart Argentina

Raul Cordero, Head of Financial Institutions, MercadoPago Mexico

Moderated by

Ana María Yumiseva
Director, Frecuencia Latinoamerica

Our agenda

1. Introductions
2. Presentation: E-commerce in Latin America: Local payments for a global community
3. Expert panel
4. Live Q&A
Slicing and dicing LatAm e-commerce
E-commerce in Latin America today

International payment methods provide only superficial access to LatAm’s addressable market

- Domestic-only credit cards: 42%
- Cash payment methods: 29%
- International credit cards: 22%
- Bank transfer and debit cards: 7%

LatAm e-commerce market size in 2017:

- Total market: $59 bn
- Share of local payment methods: 78%

Sources: Interviews, AMI analysis, E-bit, eMarketer, Paypers
Growth will come from the under-penetrated middle class
Local payment methods serving the underbanked will lead growth

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<thead>
<tr>
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<th>2017</th>
<th>2019</th>
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<tbody>
<tr>
<td>International</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>Domestic-only</td>
<td>84</td>
<td>93</td>
</tr>
<tr>
<td>No credit card</td>
<td>104</td>
<td>117</td>
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Growth:
- International credit card holders: 5% growth
- Domestic-only credit card holders: 12% growth
- No credit card: 12% growth

Sources: Interviews, AMI analysis, E-bit, eMarketer, Paypers
What are local payment methods?
Each market has its own unique payment system

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Mexico</th>
<th>Colombia</th>
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<th>Argentina</th>
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<td><strong>Cash payments</strong></td>
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AMI Americas Market Intelligence

Frecuencia Latinoamérica
Connecting the Mobile Ecosystem
Who is using local payment methods?

Potential customers have diverse profiles and utilize payment methods differently:

**Upper-middle**

- Credit card holders who are afraid of using their card online
  - **Verticals:** Travel, retail

- Consumers with a domestic-only credit card, often women
  - **Verticals:** Retail, travel

**Emerging middle**

- Budget-conscience consumers who want to buy in installments
  - **Verticals:** Retail, travel

- Consumers with no digital payment method, esp. millennials
  - **Verticals:** Retail, digital goods

- Credit card holders with a low credit limit, often women
  - **SES:** Middle class
  - **Verticals:** Retail, travel

- University students, millennials ages 18-34
  - **SES:** Middle class
  - **Verticals:** Retail, digital goods

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**Urban**

**Connected to social media**

**Aspirational**
Installments: Essential to the LatAm payments experience

Offering parcelamento places a financial burden on merchants but can significantly increase revenue

**Parcelamento**, or “interest free” installment plans, enable Latin Americans to buy more, more often

**How do they work?**

- Acquirers make the option available to merchants for varying fees
- Merchants make the option available to customers at the point of sale
- Customers can choose to finance their purchase from three up to 12 installments, usually “interest free”
- Merchants incorporate the financial cost of installments into the final price of the product
- 12 month interest-free installment plans are available on goods priced as low as R$150, or 40 USD, for every kind of product

**Why should we care?**

- In Brazil, 58% of e-commerce sales were made using an installment plan, equal to $15 bn.

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Camiseta/Manga
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(5 Avaliações)

Smartphone Xiaome Redmi 2 Cinza
D: R$ 649,00
P: R$ 549,00
10x de R$ 54,90 sem juros
Innovation to serve local needs and preferences
What does a cash payment actually look like?

What may seem like an inefficient process is extremely commonplace in every market in the region

Cash-paying consumers...

1. Select the cash payment method available at check out
2. Print out the voucher with a bar code
3. Wait up to 72 hours
4. Go to a bank, supermarket, or other agent to make the payment
5. Pay the cashier in cash
Case study: Peru’s LAN Airlines
Pioneers in enabling e-commerce for unbanked customers

<table>
<thead>
<tr>
<th>What is the solution?</th>
<th>How does it work?</th>
<th>What pain points does this solve?</th>
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<td>• LAN, now LATAM airlines, understood that many of its potential customers could not pay online</td>
<td>• Customers select cash payment at checkout</td>
<td>• Enables customers without a credit card to pay online</td>
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<td>• They developed their own cash payment platform by partnering with supermarkets</td>
<td>• They print a voucher</td>
<td>• Gives an option to customers who are afraid to use their credit card online</td>
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<td>• LAN/LATAM alone now controls 10%+ of the entire e-commerce market</td>
<td>• They go to the nearest LAN agent, such as a supermarket, to make the payment</td>
<td>• Customers can pay conveniently at supermarkets, where they shop anyway</td>
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**What is the solution?**
LAN, now LATAM airlines, understood that many of its potential customers could not pay online. They developed their own cash payment platform by partnering with supermarkets. LAN/LATAM alone now controls 10%+ of the entire e-commerce market.

**How does it work?**
- Customers select cash payment at checkout
- They print a voucher
- They go to the nearest LAN agent, such as a supermarket, to make the payment

**What pain points does this solve?**
- Enables customers without a credit card to pay online
- Gives an option to customers who are afraid to use their credit card online
- Customers can pay conveniently at supermarkets, where they shop anyway
- No chargeback risk to the merchant
Case study: Chile’s Pago46
Creating an on-demand cash collection network

What is it Pago46?

- Chilean startup founded in 2014
- On-demand cash collection network for e-commerce purchases
- Currently processing 7,000 transactions per month

How does it work?

- Customers select Pago46 button at check out
- Interactive map open, showing the nearest cash collection agents
- 3 models of cash collection:
  o Fixed – Buyer travels to the agent
  o Mobile – Buyer communicates with agent and chooses a meeting point
  o Delivery agent – Agent travels to the buy to collect payment

What pain points does this solve?

- Most cash payment methods for e-commerce in LatAm are inconvenient for the buyer and the merchant
- On-demand payment collection is fast and convenient for the buyer
- Removes all risk for the buyer
- Real-time notification for the merchant solves inventory pain points
- No chargeback risk
- Expands the overall e-commerce pool
Going local is complicated, but merchants have options
Due diligence into e-commerce enablers and their capabilities will help clarify the decision of how to go local.

Opening a full local entity is not always required, especially for digital goods merchants who do not need a physical footprint.

Various technology companies enable merchants to sell from afar without a full legal entity.

E-commerce enablers – gateways and payment service providers – depending on their model, provide a long list of services to help merchants sell into Latin America. These include:

- General advisory services on how to set up local payments
- Introductions to local attorneys and accountants
- Opening and maintenance of a non-resident bank account
- Official representation of the merchant in Latin America in lieu of a legal entity
- Wire transfers out of the region
- Customer support for the merchant’s customers in Latin America
- Support for payments in other global markets
LatAm payment processing: Key takeaways

The barriers to international e-commerce mean serious merchants must develop a local payments strategy.

- Latin American consumers expect to be able to buy in installments. To be competitive, merchants—especially retailers—must offer them.

- To process payments locally, merchants must work with local acquirers and payment processors.

- To generate a sound local payments strategy, merchants need to understand the local banking and acquiring landscape, payment methods, and peculiarities of each individual market.

- Merchants who use a cross-border strategy in Latin America are only scratching the surface of their sales potential.

- In contrast, processing locally, merchants can offer local payment methods, which grants them access to an additional $46bn in addressable market.
Where do I get more information?
Payments industry **whitepapers**.

- Insights to Win in E-commerce in Latin America: [https://americasmi.sharefile.com/d-s3ea7986ba5f4877a](https://americasmi.sharefile.com/d-s3ea7986ba5f4877a)
- Latin America Payments Under Digital Transformation: [https://americasmi.sharefile.com/d-s002cb3fc8c649f2a](https://americasmi.sharefile.com/d-s002cb3fc8c649f2a)


AMI payments industry **presentations and data**:

- M-commerce in Latin America: Opportunities, best practices, and case studies, 2016  
  [https://americasmi.sharefile.com/d-s6bbeed507944ecb](https://americasmi.sharefile.com/d-s6bbeed507944ecb)
- Landscape of Virtual Money in Latin America: Trends, opportunities and risks, 2016  
  [https://americasmi.sharefile.com/d-s1c877a59b674fe09](https://americasmi.sharefile.com/d-s1c877a59b674fe09)

**In-depth report on e-commerce in Brazil**, 72 pages, for purchase:

- Optimizing e-commerce payments in Brazil  
  [http://americasmi.com/productsindex](http://americasmi.com/productsindex)
We completed more than 2,000 client engagements throughout Latin America for market research, competitive Intelligence, opportunity benchmarking and more in a wide range of sectors, including:

- **Payments** (credit/debit cards, virtual wallets, e-commerce, m-commerce etc.)
- **Logistics** (freight forwarding, pricing studies, market forecasts, etc.)
- **Healthcare** (market sizing, competitive analysis, health trends, etc.)
- **Mining** (risk analysis and assessment, competitive intelligence, forecasts, etc.)
- **Industrial** (market sizing, intelligence for investors, brand awareness, etc.)
- **Consumer** (shopping tendencies, demand, market analysis)
- **Auto** (market intelligence, brand awareness, competitive analyses)

Contact us at info@americasmi.com to find out more about how we can solve your strategic data challenges